

# Statement on Risk Management and Internal Control

## BOARD'S RESPONSIBILITIES

The Board of Directors ("The Board") acknowledges their responsibility in maintaining a sound system of internal control covering financial and operational controls, compliance and risk management to safeguard shareholders' investments and the Group's assets.

There is an on-going review process by the Board to ensure the adequacy and integrity of the risk management and internal control system in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. However, the Board recognises the review of the Group's system of risk management and internal controls is a concerted and continuous process, designed to manage rather than eliminate the risk of failure to achieve business objectives. As such, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has received assurance from the Executive Committee that the Group's risk management and internal control system is adequate and operates effectively, in all material aspects. The Executive Committee consists of the Executive Chairman, Group Managing Director, Executive Directors and Heads of Business Units.

## RISK MANAGEMENT

The Board has put in place an Enterprise Risk Management ("ERM") framework, in accordance with the Malaysian Code on Corporate Governance 2017, to ensure that there is an on-going process of identifying, evaluating, and managing significant business risk exposure. The Group's ERM framework aims to facilitate the execution of strategic business action to achieve the Group's vision of being a preferred global agro-based enterprise, by implementing relevant controls or translating the principal risks of the business into upside opportunities.

The Group's ERM framework is based on the internationally recognised COSO (Committee of Sponsoring Organizations). Risk factors are incorporated into the risk register and individually rated as High, Significant, Moderate or Low risk. The rating process is guided by a matrix of 'possibility of likelihoods' and the associated 'consequences', of which both financial and non-financial consequences are duly considered. Thereafter, owners of these risk factors will drive the implementation of risk mitigation measures towards achieving a residual risk that is within the acceptable tolerance.

Management is accountable to the Board for risk management and internal control and has implemented processes to identify, evaluate, monitor and report risks and to design and implement relevant controls in response to the risks. For this, a Risk Management Unit ("RMU") and a Risk Management Committee ("RMC") have been established by the Group.



*Risk Reporting Structure at QL*

### **Risk Management Unit**

The Risk Management Unit (“RMU”) of QL Resources Berhad comprises the Executive Committee, Chief Financial Officer, Group Risk Management Manager, and is chaired by Executive Chairman. The RMU undertakes the following responsibilities:

- To communicate board vision, strategy, policy, responsibilities, and reporting lines to all employees across the Group;
- To identify and communicate to the RMC the critical risks (present or potential) the Group faces, their changes, and the management action plans to manage the risks; and
- To perform risk oversight and review risk profiles (Company and the Group) and organisational performance.

### **Risk Management Committee**

The members of the Risk Management Committee (“RMC”) comprises a majority of Independent Non-Executive Directors appointed by the Board of Directors. The RMC is responsible for amongst others:

- To create a high-level risk strategy policy aligned with the Company’s strategic business objectives;
- To perform risk oversight and review risk profiles (Company and the Group) and organisational performance; and
- To provide guidance to the business unit’s risk appetite and capacity, and other criteria, which, when exceeded, trigger an obligation to report upward to the Board.

# Statement on Risk Management and Internal Control

The Group has a Risk Management Department ("RM"), led by the Group Risk Management Manager. The RM facilitates and supervises the implementation of the ERM framework and processes by the respective business units. The RM reports functionally to the RMC and RMU.

During the financial year under review, the Group's activities were exposed to the following principal risks:

- COVID-19 Pandemic

Since the Government enforced a Movement Control Order (MCO) on 18 March 2020, the RMU has been embarking on weekly meetings and closely monitoring the impact of COVID-19 on the Group's operations. Being a food producing company, falling under the category of essential services, QL has assured sufficient food supplies for our customers and adhered to the standard operating procedure (SOP) set by the Government. The priority is to ensure the health and safety of our employees and customers.

- Operational Risk

The Group's policy is to assume operational risks that are manageable within its core business competencies. The operational risk management ranges from disease outbreak, power failure, fire breakout, food contamination, halal issues and environmental risks. The management of the Group's day-to-day operational risks are mainly decentralised at the respective business unit level and guided by standard operating procedures (SOPs).

- Financial Risk

The Group is exposed to various financial risks relating to foreign currency exchanges and credit risks. These financial risks are mitigated through internal control processes and constant monitoring.

- Information Technology Risk

The Group is exposed to various information technology risks. This includes potential risks such as network security risk, data protection risk and cybersecurity risk. These risks are mitigated through regular information technology risk assessment and relevant action plans. The Management is wary of cybersecurity risk and the framework has been prepared. The Group is in the process of implementing the Cybersecurity Framework.

The key aspects of the risk management process are as follows:

- The Group Risk Management Manager coordinates the periodic review of risk registers which are carried out to assess changes in the Environmental, Social, Governance (ESG) that could significantly impact the Group and its key risks.
- Heads of Business Units undertake to update their risk profiles' worksheet on a quarterly basis.
- The risk profiles' worksheet, control procedures and status of action plans are reviewed for efficacy on a periodic basis by the Group Risk Management Manager together with the Heads of Business Units.

- On a quarterly basis, a risk management report summarising the high and significant risks and status of action plans is presented to the RMC and RMU for review, deliberation and recommendation for endorsement by the Board of Directors.

Enterprise Risk Management refresher trainings were conducted separately by third party facilitators and Group Risk Management Manager during the financial year as part of the ERM awareness enhancement activity. Going forward, the RMC and RMU will continuously deliberate the following to further strengthen the existing risk management controls within the Group:

- Key risks highlighted in the Risk Management Report will be used in developing internal audit plans.
- The Group Risk Management Manager will conduct an annual review of the ERM framework and its processes.
- The documented standard operating policies and procedures to ensure compliance with internal controls, laws and regulations, will be subjected to regular reviews and improvement.
- Enhance Crisis Management to handle disruptive incidents and effectively ensure a structural recovery that safeguards the interests of its stakeholders, as well as to protect the credibility and reputation of QL.
- Taking into cognizance Section 17A of the Malaysian Anti-Corruption Commission (Amendment) Act 2018 that has come into force on 1st June 2020, the Group has commissioned a consultant to assist management in reviewing and strengthening our Group's existing policies on anti-bribery and corruption, in particular to ensure adequate procedures are in place to further mitigate risks of bribery and corruption.

## INTERNAL CONTROL PROCESS

The key elements of the Group's internal control processes are summarised as follows:

- The Board, Audit Committee, RMC and RMU meet on a quarterly basis to discuss strategic, operational, risk and control matters raised by the Management, Internal Audit and external auditors.
- The Board has delegated its responsibility to several committees and to the Management of the Company to implement and monitor designated tasks.
- The authority limits delineate authorisation limits for various levels of management and matters reserved for collective decision by the Board to ensure proper identification of accountabilities and segregation of duties.
- SOPs are revised to meet the operational requirement, the business and statutory reporting needs when necessary.
- Performance reports are provided to the Executive Committee and the Board for review and deliberation.
- A whistle-blower policy is in place and anyone who has a genuine concern on detrimental actions or improper conduct may raise it using the confidential channels laid out in the policy which is available on QL's website.

# Statement on Risk Management and Internal Control

- Heads of Business Units present their strategies, annual budgets and capital expenditure proposals to the Executive Committee and the Board for deliberation and approval.
- The review of strategy and annual budget is undertaken by Management on half-yearly basis.

## INTERNAL AUDIT

Internal audit function was carried out by an independent professional consulting firm. Scheduled internal audits are carried out based on audit plan approved by the Audit Committee. The internal audit reports, summarising the observations of control weaknesses, recommendations for improvement and Management responses were presented to the Audit Committee on a quarterly basis. These findings were deliberated together with Management at the Audit Committee Meetings. The Audit Committee assessed the overall adequacy and effectiveness of the system of internal controls of the Group and reports to the Board of Directors, in particular, the matters relating to significant risks and the necessary recommendations for changes.

For the financial year under review, the internal audit's scope covered the following based on the approved audit plan:

- Revenue control management, which involved assessing the adequacy of controls over sales management, price setting, and credit control management.
- Cost control management, which involved assessing the adequacy of controls over procurement, inventory management, and asset management.
- Operational and compliance control management, which involved assessing the adequacy of controls over information technology, halal compliance, warehouse control, and retail operations.

## CONCLUSION

The Board is of the view that the risk management and internal control systems that are in place for the year under review and up to the date of approval of this statement, is adequate and effective to safeguard shareholders' investment and the Group's assets.

There have been no significant breakdowns or weaknesses in the system of internal control of the Group for the financial year under review. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.

The Group's system of internal control applies to QL Resources Berhad and its subsidiaries. Associated companies have been excluded because the Group does not have full management and control over them. However, the Group's interest is served through representations on the boards of the respective Associated companies.

This Statement on Risk Management and Internal Control was approved by the Board on 4 August 2020.